

Savings for Ontario School Boards

While the second quarter of 2016 has been busy, only a few matters have been resolved. Those matters together represented about \$350,000 of savings for schools. It has, in effect, been the "calm before the storm."

As expected, Ontario Power Generation filed its rate case, seeking five year increases for schools of \$104 million, plus further big increases after that. Four GTA area electricity distributors have also filed their request to merge, but keeping the merger savings for themselves for ten years. We are also awaiting decisions on major cases for Powerstream, and for natural gas community expansion.

ONGOING MATTERS - NATURAL GAS

Natural Gas Community Expansion. Proposals have been filed by Union Gas and Enbridge for subsidized expansions into more than 70 communities where natural gas is currently uneconomic. Some schools would benefit from these proposals, but at a cost borne by the other schools.

A hearing was held in May, with strong opposition to the utility proposals by most customer groups. SEC took a more moderate position, proposing that current tests for economic expansion be made more flexible, but that the underlying factors driving the economics of the natural gas industry continue to be respected.

A decision by the Energy Board is expected in the fall.

Carbon Cap and Trade. SEC remains involved in this consultation on the effects of climate change policies on the natural gas sector. The process has not moved forward quickly, because the Energy Board is awaiting further details on the government policies that will be in play. It is likely that regulatory decisions in this area will not be finalized until early next year.

SEC considers this an area of high risk for schools, and will continue to watch it closely.

ONGOING MATTERS - ELECTRICITY

Powerstream/Horizon/Enersource/Brampton "Mega-Merger". The expected application to merge these four distributors was finally filed in May. The merger has potential benefits, estimated to be \$400-\$500 million, due to economies of scale and other factors. However, the utilities propose that their shareholders get all of the benefits for ten years. Customer groups want some of the benefits to go to reducing rates.

It is the normal practice of the Energy Board to refuse to consider rate impacts in merger applications. SEC has challenged this practice in court, and that court case is pending. Meanwhile, SEC will continue to press the Energy Board to order that some of the benefits of the merger be shared with customers.

Powerstream 2016-2020 Rates. We have still not received a decision by the Energy Board on this rate application, filed in May 2015. The continuing delay appears to be the result of complications from the mega-merger application, detailed above. The SEC court challenge - of the refusal to consider rate impacts from the merger - may be a further factor.

The utility is seeking rate increases, for schools, of 8.15% per year for five years. As the evidence from the merger application shows, they don't actually need those increases, but propose that the excess profits go to their shareholders, rather than to customers.

Toronto Hydro. Although the main Toronto Hydro case is over, there was still the matter of a true-up of capital spending over the 2011-2014 period. Toronto Hydro wanted an additional \$11 million from customers for the impact of higher capital spending in that period. The customer groups, led by SEC counsel Mark Rubenstein, negotiated a resolution of the application in which the \$11 million excess was written off by the utility. The one-time saving for Toronto school boards is about **\$150,000**.

Other Electricity Distributors. Decisions or settlements on a few additional electricity distributors came in this quarter, representing a total of about **\$200,000** of savings for the affected schools.

OPG 2017-2021 Rates. The application by Ontario Power Generation for five years of rates on its nuclear and hydroelectric generation – the largest rate application in Canadian history – was finally filed at the end of May. Over that period, proposed base rates total about \$24 billion. However, add-ons built into the structure would increase this another \$5-\$8 billion, depending on future costs and production levels.

In summary, OPG proposes that rates for hydroelectric generation increase by just under inflation for the next five years, but with any capital improvements to their facilities treated as extras. For nuclear, they propose a complex smoothing mechanism that results in increases of 11% per year for ten years. Nuclear generation in year ten would cost almost three times the current cost.

Interestingly, because of last year's special temporary rate increase, and because of a proposal to defer collection of some current costs, prices in 2017 are expected to go down. However, by year five they will be up by 40%, and by year ten at least 120%, probably more.

The proposed increase in bills for schools is \$104 million over five years, but OPG wants to defer \$27 million until the next five years (with interest), leaving the net increase for schools at \$77 million. The increase in the 2022-2026 period is forecast at another \$263 million, for a ten year total of \$340 million.

Much of the increase is related to the Darlington nuclear project, which is already approved by the government, and on which the Energy Board has limited discretion. There is still some room for reductions in other areas, however, and SEC is aiming for at least \$10 million of savings over the first five years. (Of course, the best electricity cost reduction strategy for school boards continues to be aggressive conservation programs.)

The regulatory process will take 10-14 months. SEC expects to play a central role in coordinating the activities of the stakeholders.

OTHER PROCEEDINGS

Pensions and OPEBs. Utilities currently include in rates amounts to fund pensions and other post-retirement benefits. The amounts collected usually exceed the cash cost of those expenses, creating over time pools of free utility capital that, while not actually set aside to fund future costs, are cumulatively billions of dollars of ratepayer money collected in rates in advance of being spent. SEC has for some years been fighting to deal with this excess recovery. A policy consultation is now underway to address this. SEC is taking the position that cumulative excess recoveries should be tracked, and customers should be given credit in rates for their "investment" in the utility.

Corporate Governance. The Energy Board has launched an initiative to set criteria for the governance of utilities, including things like selection and operation of boards of directors, and relationships with shareholders. If they proceed with this, they would be the first energy regulator in the world to take this step. It is expected they will meet substantial resistance from both utilities and customers.

Role of Intervenors. In June the Energy Board announced its long-awaited changes to the rules relating to intervenors. The announcement proposed as expected that starting in 2017 the groups representing residential and small business consumers – the Consumers Council, the seniors and tenants groups, and Energy Probe – will be replaced with “local representation” supervised and controlled by the Energy Board. Nothing was said about other intervenors, such as schools, but it is known that the Energy Board hopes to limit the scope, impact and funding of other customer groups once the new consumer representatives are in place.

A lot of the details remain to be worked out. Although an open process was expected, only private discussions have taken place so far, and no public process or discussion has been announced. SEC is monitoring the situation closely.

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In conclusion,

OESC is represented by Jay Shepherd who consults regularly with myself and Wayne McNally, who is an advisor to the OESC Board of Directors. It is critical to note that the work of the School Energy Coalition, per OESC, is a respected intervenor at the Ontario Energy Board.

Our work has allowed every school district in the Province of Ontario to avoid significant energy costs. This reality assists with the bottom line to your budget.



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